DIAMOND ESTATES WINES & SPIRITS INC.

MANAGEMENT DISCUSSION AND ANALYSIS

THREE AND SIX-MONTH PERIODS ENDED SEPTEMBER 30, 2018 AND 2017

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The following management discussion and analysis ("MD&A") of Diamond Estates Wines & Spirits Inc. ("Diamond" or "the Company") provides a review of corporate developments, results of operations and financial position for the three and six-month periods ended September 30, 2018 ("Q2 2019" and "YTD 2019", respectively) compared with the corresponding periods ended September 30, 2017 ("Q2 2018 and "YTD 2018", respectively). This discussion is prepared as of November 21, 2018 and should be read in conjunction with the (i) unaudited interim condensed financial statements and accompanying notes of Diamond for Q2 2019 and (ii) both the audited consolidated financial statements and MD&A for the fiscal years ended March 31, 2018 and March 31, 2017. All note references are made in reference to these consolidated financial statements. Additional information regarding Diamond is available on Diamond's SEDAR profile at www.sedar.com. The results reported in this MD&A have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in Canadian dollars, unless otherwise indicated, which is the Company's functional currency.

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements. Forward-looking statements can often be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "estimates", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this MD&A. Such forward-looking statements are based on a number of assumptions which may prove to be incorrect, including, but not limited to, the ability of the Company to obtain necessary financing, the economy generally, the global financial crisis, conditions in the target market of the Company, consumer interest in the services and products of the Company, competition and anticipated and unanticipated costs. Such statements could also be materially affected by environmental regulation, liquor regulation, taxation policies, competition, the lack of available and qualified personnel or management, stock market volatility and the ability to access sufficient capital from internal or external sources. Actual results, performance or achievement could differ materially from those expressed herein. While the Company anticipates that subsequent events and developments may cause its views to change, the Company specifically disclaims any obligation to update these forward-looking statements, except as required by applicable law. These forward-looking statements should not be relied upon as representing the Company's views as of any date subsequent to the date of this MD&A. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. Readers should not place undue reliance on forward-looking statements. The factors identified above are not intended to represent a complete list of the factors that could affect the Company. Additional factors are noted in this MD&A under "Risk Factors".

COMPANY OVERVIEW

Diamond Estates Wines and Spirits Inc. is a producer of high quality wines and a sales agent for over 120 beverage alcohol brands across Canada. The Company operates three wineries, two in Ontario and one in British Columbia, that produce predominantly VQA wines under such well known brand names as 20 Bees, EastDell, Lakeview Cellars, Dan Aykroyd, Fresh, McMichael Collection, Benchmark, Seasons and Backyard Vineyards. Through its wholly owned subsidiary, Trajectory Beverage Partners, the Company is the sales agent for many leading international brands in all regions of the country as well as being a distributor in the western provinces. These recognizable brands include Josh wines from California, Fat Bastard and Andre Lurton wines from France, Kaiken wines from Argentina, Anciano wines from Spain, Blue Nun wines from Germany, Francois Lurton wines from France and Argentina, Waterloo Brewing and Amsterdam Brewery, both from Canada, Landshark Lager from the USA, Marston's beers from England, Social Lite vodka sodas from Canada, Malfy Gin from Italy, Edinburgh Gin from Scotland, Ian MacLeod and Glengoyne scotches from Scotland, Barcelo Rum from the Dominican Republic and Tequila Rose Liqueur from McCormick Distilling in the USA.

The Company's mission is to build lasting, mutually beneficial relationships with channel partners, growers, suppliers and employees. To meet this goal, the Company is undertaking significant investments in winemaking, brand marketing, sales programming, performance management and back office infrastructure, including information systems which will support growth in an efficient, profitable manner. Based on its analysis of the market, the Company believes that the long-term growth prospects for the domestic and import beverage alcohol markets in Canada are positive. Diamond is also a significant participant in the export market, with a particular focus on China, where demand for Canadian wines is growing.

The Company is committed to delivering these results through its distribution network focused on the provincial liquor boards, licensed restaurants and bars, grocery chains, Diamond's three retail locations and export channels. The Company has a total workforce of approximately 116 full-time employees, including 46 engaged in the selling and marketing of its brands, 29 in the manufacturing and distribution of its brands, 20 involved in the retailing of its domestic products through its retail facilities and 21 in accounting and administration, including the senior officers. The Company also uses a number of independent representatives that are compensated by commissions to sell its products in the licensee channel.

Q2 2019 Highlights

- Revenue was $8.2 million, a decline of 8.3% from $8.9 million in Q2 2018, driven by lower export sales in the winery division and the loss of a supplier in the agency division;

- Gross Margin was $3.7 million, a decline of 1.5% from $3.8 million in Q2 2018, driven primarily by accounting for the acquisition of Backyard Vineyards Corp. ("BYV"), partially offset by higher gross margin in the agency division due to a change in the supplier mix and severance revenue;

- EBITDA of $0.3 million versus $0.85 million in Q2 2018;

- Net loss of $0.4 million, versus a slightly positive net income in Q2 2018;

- On September 12, 2018, the Company announced that its agency division has been rebranded as Trajectory Beverage Partners, reflecting the division's projected growth and new sales and marketing strategy;

- The Company relocated its agency business to a newly renovated office space in Oakville, Ontario;

- The Company generated continued strong sales in the Ontario grocery channel, achieving the top market share position in grocery during the quarter and generating year-over-year sales growth in the LCBO/grocery channel of 17.2%;

- The Company continued to accumulate accolades for its high-quality wines, with its Lakeview Cellars 2016 Vidal Icewine and 2015 Syrah winning Gold and Bronze, respectively, at the National Wine Awards, while also winning several awards for its EastDell and Lakeview Cellars brands at the Intervin International Wine Awards;

- The Company expanded its Western Canadian leadership team with the addition of a Vice President & General Manager for the Western region; and

- The Company's directors exercised vested options to purchase 2.5 million shares of common stock in September 2018 for total proceeds of $0.5 million.

QUARTERLY PERFORMANCE (UNAUDITED)

The following table highlights certain key quarterly financial highlights. Commentary on the selected highlights is included under "Results of Operations" and "Liquidity and Capital Resources".

	Sep-2018 Q2 2019 $	Jun-2018 Q1 2019 $	Mar-2018 Q4 2018 $	Dec-2017 Q3 2018 $	Sep-2017 Q2 2018 $	Jun-2017 Q1 2018 $	Mar-2017 Q4 2017 $	Dec-2016 Q3 2017 $
Balance sheet								
Working capital surplus	15,147,683	14,557,047	13,649,842	16,962,914	12,878,449	3,566,738	8,405,028	10,891,386
Bank indebtedness (total)	-	-	-	-	-	9,633,395	5,312,135	3,968,458
Term debt and finance leases	20,983,293	20,633,556	19,870,206	22,014,838	18,024,476	8,208,220	8,397,214	8,377,352
Total equity	18,108,076	17,907,342	16,254,600	17,596,514	17,073,197	16,928,201	20,426,142	21,366,906
Income statement								
Revenue	8,168,951	8,005,329	5,379,083	10,350,258	8,909,281	9,632,299	6,060,573	8,814,451
Gross margin	3,730,497	3,679,176	2,268,204	4,745,427	3,785,536	4,384,242	2,305,241	3,362,038
EBITDA	317,146	790,465	(753,214)	1,015,126	781,325	1,449,304	(495,849)	590,197
Adjusted EBITDA	517,485	740,610	(449,022)	1,851,476	877,712	1,449,304	(199,198)	731,570
Net (loss) income	(429,548)	100,358	(1,362,867)	504,374	1,268	884,402	(971,482)	8,788
Basic (loss) income per share	0.00	0.00	(0.01)	0.00	0.00	0.01	(0.01)	0.00
Diluted (loss) income per share	0.00	0.00	(0.01)	0.00	0.00	0.01	(0.01)	0.00

See definition of selected terms under the heading "Non-IFRS Financial Measures"

RESULTS OF OPERATIONS

	Q2 2019	YTD 2019	Q2 2018	YTD 2018
Revenue	**$ 8,168,951**	**$ 16,174,280**	$ 8,909,281	$ 18,541,580
Cost of sales	**4,438,454**	**8,764,607**	5,123,745	10,371,800
Gross margin	**3,730,497**	**7,409,673**	3,785,536	8,169,780
Gross margin (% of revenue)	***45.7***	***45.8***	*42.5*	*44.1*
Selling, general and administration expenses	**3,413,351**	**6,302,314**	3,004,211	5,939,151
Selling, general and administration expenses (% of revenue)	***41.8***	***39.0***	*33.7*	*32.0*
EBITDA	**317,146**	**1,107,359**	781,325	2,230,629
ADJUSTED EBITDA	**517,485**	**1,257,843**	**877,712**	**2,327,016**
Interest	**266,060**	**590,762**	248,692	465,754
Depreciation and amortization	**430,957**	**760,226**	387,637	718,700
Income tax recovery	**(55,605)**	**(55,605)**	-	-
Income from operations	**(324,266)**	**(188,024)**	144,996	1,046,175
Share based compensation	**105,282**	**141,166**	143,728	160,505
Net income and comprehensive income	**$ (429,548)**	**$ (329,190)**	$ 1,268	$ 885,670
Portion attributable to:				
Shareholders	**$ (429,548)**	**$ (329,190)**	$ 1,268	$ 866,775
Non-controlling interest	**-**	**-**	-	18,895
	$ (429,548)	**$ (329,190)**	$ 1,268	$ 885,670

See definition of selected terms under the heading "Non-IFRS Financial Measures"

The Company reported a net loss for the second quarter of fiscal 2019 of $0.4 million, compared to a slightly positive amount in the second quarter of fiscal 2018. For the six-month period ended September 30, 2018, the Company reported a loss of $0.3 million, a decline of $1.2 million from net income of $0.9 million from the comparable year-to-date period in fiscal 2018.

Revenue for the second quarter was $8.2 million, a decline of 8.3% from $8.9 million in the second quarter of fiscal 2018. The winery division accounted for $0.1 million of the decline. Export sales were down by $0.8 million compared to the prior year period, as a key distributor continued to work through excess icewine inventory due to slower-than-planned new store growth in China. This was partially offset by $0.5 million in revenue from BYV, the Company's new winery in British Columbia, that it acquired on June 28, 2018. The second quarter of fiscal 2019 represented the first full quarter of revenue from this division. In the Ontario market, the Company's sales to the LCBO, which includes the grocery channel, increased by 17.2%. This was driven by continued strength in the new grocery channel, as well as additional LCBO store listings gained during the quarter, as the Company worked to re-introduce products that were temporarily removed as a result of the short-crop strategy implemented during fiscal 2018.

Revenue in the agency division declined by $0.6 million, or 15.0%, in the second quarter of fiscal 2019 to $3.4 million compared to $3.9 million in the prior year period. This decrease was mainly attributable to the previously disclosed loss of a supplier during fiscal 2018 that the Company represented as its national distributor, which generated $0.8 million of revenue in the second quarter of fiscal 2018. Second quarter revenue in fiscal 2019 included severance of $0.2 million related to another supplier that terminated its relationship with the Company during the quarter.

Revenue for the year-to-date period declined by 12.8%, or $2.3 million, to $16.2 million from $18.5 million in the prior year period. The winery division accounted for $0.9 million of the decline, primarily driven by lower export revenue of $1.2 million. This was partially offset by revenue from BYV of $0.5 million. The agency division accounted for the balance of the revenue decline, which totalled $1.4 million. It was predominantly driven by the loss of the supplier that the Company represented as its national distributor. This supplier accounted for $1.4 million of revenue in the first six months of fiscal 2018.

Gross margin in the winery division was $2.1 million in the second quarter of fiscal 2019, down 11.4% from the comparable period in fiscal 2018. Gross margin as a percentage of revenue in the winery division decreased to 42.6% in the second quarter of fiscal 2019 compared to 46.7% in the prior year period. This decline was primarily the result of the impact of the acquisition of BYV, as the inventory on acquisition was recorded at fair value instead of cost, in accordance with International Financial Reporting Standards. As such, there was a margin of only 15.0% on $0.5 million of sales in the BYV division for the second quarter. Normalizing for the impact of acquisition accounting, the winery division gross margin would have been 46.5%, consistent with the prior year period.

Gross margin in the agency division was $1.7 million in the second quarter of fiscal 2019, an increase of 14.2% from the comparable period in fiscal 2018. Gross margin as a percentage of revenue in the agency division increased to 50.0% for the second quarter, compared to 37.2% in the year-ago period. The increase in gross margin in the second quarter is due in part to the aforementioned loss of the supplier that the Company represented as its national distributor, which resulted in a shift in the Company's proportion of sales under commission-based agreements versus buy-sell arrangements. Margins tied to business from this supplier were 17.3% in the second quarter of fiscal 2018. In addition, the severance revenue recorded during the second quarter of fiscal 2019 improved gross margin in this segment by 3.9 basis points. When normalized for severance revenue, gross margin for the agency division was $1.4 million, or 46.1% of revenue.

Gross margin for the first six months of fiscal 2019 was $7.4 million, a decline of 9.3% from the prior year amount of $8.2 million. Gross margin as a percentage of revenue increased to 45.8% in the first six months of fiscal 2019, compared to 44.1% in comparable period in fiscal 2018. The gross margin in the winery division was 44.2%. Normalizing for the acquisition-related accounting adjustments on the BYV acquisition, gross margin would have been 46.2%. Gross margin in the agency division was 48.0% for the first six months of fiscal 2019.

Total operating expenses were $3.4 million in the second quarter of fiscal 2019, an increase of $0.4 million from $3.0 million in the prior year quarter. Year-to-date operating expenses increased by $0.4 million over the prior year to $6.3 million. Employee compensation and benefits increased by $0.3 million over the prior year quarter due to bonuses of $0.2 million bonuses paid to certain executives following a review undertaken by the Compensation Committee. In addition, the acquisition of BYV resulted in a wage increase of $0.1 million over the prior year period

General and administrative expenses in the second quarter of 2019 were $0.9 up by $0.2 million compared to the prior year quarter. Year to date, general and administrative costs were up $0.2 million from the prior year to $1.6 million. These expenses included post-closing costs related to the acquisition of BYV in the second quarter *(see note 5 in the Q2 2019 financial statements)*, consulting fees relating to the selection of its new ERP system and increased costs related to the recent change to subscription based-services for certain software and costs for IT management services. BYV, the recently acquired winery, accounted for approximately $0.1 million in general and administrative costs during the second quarter. The increases were partially offset by a decline in financing costs paid of approximately $75 thousand, as the second quarter of fiscal 2018 included costs related to the early extinguishment of debt when the company changed banking institutions to BMO. The year-to-date increase in G&A expenses was partially offset by one-time cost recoveries totalling $0.1 million during the first quarter of fiscal 2019 related to retroactive registration for QST and the excess billings from prior periods from one of the Company's third-party warehouse providers.

Interest expense was $0.3 million in the second quarter of fiscal 2019, compared to $0.2 million in the second quarter of fiscal 2018. Year-to-date, interest expense was $0.6 million in fiscal 2019, compared to $0.5 million in the prior year. These increases reflect the larger balance drawn on the Company's revolving line of credit as the Company completed the expansion of its winery, including the purchase of additional tanks, as well as the acquisition of BYV.

LIQUIDITY AND CAPITAL RESOURCES

	September 30, 2018	March 31, 2018
Accounts receivable	**$ 6,033,087**	$ 2,795,576
Inventory	**17,493,100**	17,037,104
Prepaid expenses	**428,826**	539,834
Biological assets	**17,390**	-
Total current assets	**23,972,403**	20,372,514
Property, plant and equipment	**20,298,262**	18,630,299
Intangible assets	**3,139,788**	3,192,152
Goodwill	**280,333**	-
Total assets	**$ 47,690,786**	$ 42,194,965
Accounts payable and accrued liabilities and other	**$ 7,628,234**	$ 6,070,159
Note payable	**550,000**	-
Current portion of term loans payable and finance leases	**646,486**	652,513
Total current liabilities	**8,824,720**	6,722,672
Term loans payable, net of current portion	**20,124,034**	18,895,188
Finance leases, net of current portion	**212,773**	322,505
Deferred income taxes	**421,183**	-
Total liabilities	**29,582,710**	25,940,365
Shareholders' equity	**18,108,076**	16,254,600
	$ 47,690,786	$ 42,194,965

The Company's consolidated financial position has changed significantly from March 31, 2018 to September 30, 2018, primarily due to the acquisition of BYV, a winery in Langley, British Columbia, on June 28, 2018 *(see note 5 to the Q2 2019 financial statements).*

The increase in accounts receivable of $3.2 million from March 31, 2018 to September 30, 2018 is attributable to the seasonality of the Company's business, as revenues for the fourth quarter of fiscal 2018 were significantly lower than in the first two quarters of fiscal 2019, as is typical. Accounts receivable at September 30, 2018 include $0.5 million received after the quarter end for tenant improvement allowances owed to the Company related to renovations at its new office location in Oakville, Ontario, as well as $0.25 million in accrued severance from a supplier that terminated its relationship with the Company during the quarter. Normalized for these two atypical balances, accounts receivable at September 30, 2018 would be $5.3 million, representing a $0.8 million decrease from the balance of $6.1 million at September 30, 2017, which is consistent with the revenue for each period.

Inventory balances increased by $0.5 million from March 31, 2018 to $17.5 million as at September 30, 2018. This change in inventory is attributable to several factors, including a draw down of prior year bulk wine vintages of approximately $2.4 million as it was bottled into finished goods inventory. This draw down of bulk wine was offset by the $1.3 million of bulk wine intake from the 2018 harvest and the acquisition of BYV, which included bulk wine valued at $0.5 million, of which $0.4 million remained at September 30, 2018. Finished goods inventory in the winery division increased by $0.6 million from March 31, 2018 to September 30, 2018, resulting from the bottling of bulk wine and the BYV finished goods inventory, which totalled $0.5 million at September 30, 2018. The agency division inventory at September 30, 2018 increased by $0.5 million from the balance as at March 31, 2018. This reflects the seasonality of the business as the Company increases stock levels of certain items in advance of the autumn season, which is traditionally a peak period for promotional activity and consumption.

Prepaid expenses declined by $0.1 million from the balance at March 31, 2018 to $0.4 million at September 30, 2018 due to the amortization of prepaid amounts into expense for insurance premiums, financing fees and other expenses.

Property, plant and equipment as at September 30, 2018 was $20.3 million, up from $18.6 million at March 31, 2018. This increase is largely the result of the acquisition of BYV, which included capital assets valued at $1.5 million. Further, the acquisition of new stainless-steel tanks and equipment at the winery in Niagara-on-the-Lake totalled $0.5 million, which will allow the Company to further increase its grape purchases in support of anticipated future growth in demand for its products. There were also additions in the agency division for furniture, fixtures and equipment at the new office location totalling $0.2 million, as well as Company-wide additions to computer totalling $0.1 million. These were necessary as the Company completed its upgrade of computer hardware to take advantage of new applications. These increases were partially offset by a total of $0.6 million in depreciation taken year-to-date.

Intangible assets declined slightly to $3.1 million at September 30, 2018 from $3.2 million at March 31, 2018, driven by the acquisition of BYV, which included customer lists and trademarks valued at $0.1 million. This increase was offset by the amortization of intangibles for the first two quarters of fiscal 2019.

The Company recognized Goodwill amounting to approximately $0.3 million on its purchase of BYV, reflecting the excess of the purchase price over the net assets acquired on purchase *(see note 5 to the Q2 Fiscal 2019 financial statements)*.

Accounts payable and accrued liabilities increased by $1.6 million from March 31, 2018 to $7.6 million at September 30, 2018, primarily due to the accrual for grape purchases in the winery division of $1.3 million related to the 2018 harvest. This increase in the winery division was partially offset by a reduction in accounts payable and accruals of $0.7 million from the March 31, 2018 balance. Payables also increased in the agency division by $0.9 million, primarily related to inventory purchases and costs related to the new office facility. The acquisition of BYV resulted in the remaining increase of $0.1 million in payables.

Working capital increased by $1.5 million to $15.1 million as at September 30, 2018 compared to $13.6 million as at March 31, 2018 as a result of the changes to current assets and liabilities as described above.

As a result of the acquisition of BYV, a liability for deferred income taxes was recognized in the amount of $0.5 million on the date of acquisition. This liability represents the estimate of taxes to be payable in future periods as a result of the difference between the fair value and tax value of inventories and property plant and equipment on the date of purchase and the identifiable intangible assets recognized on acquisition. As of September 30, 2018, $0.1 million of this total was recognized as a recovery of taxes as a portion of the inventory acquired from BYV has been sold through. It is anticipated that the Company will be able to negate the impact of the deferred tax liability through the use of tax loss carry forward balances in its main operating entity *(see note 18 to the fiscal 2018 financial statements)*.

The Company's debt to equity ratio decreased slightly to 1.21:1 as at September 30, 2018 from 1.22:1 as at March 31, 2018, where debt is defined as total liabilities less other current liabilities and equity is defined as shareholders' equity. This is a result of the increase in bank debt and assumption of the note payable from the acquisition of BYV during Q1 2019, offset by the increase to share capital resulting from the acquisition of BYV and the exercise of stock options.

CAPITALIZATION

The Company has common shares and other equity instruments outstanding at each reporting date as follows:

	September 30, 2018	**March 31, 2018**	**Change in period**
Common shares	147,911,746	140,373,841	7,537,905
Deferred share units	1,622,000	1,563,238	58,762
Stock Options	4,535,000	6,682,400	(2,147,400)
Total equity instruments	154,068,746	148,619,479	5,449,267

The changes to the Company's overall capitalization during YTD 2019 were as follows:

(a) On April 3, 2018, on the retirement of a member of the Board of Directors, 200,405 DSUs were settled in common shares of the Company;

(b) On April 10, 2018, the Company issued 150,000 common shares on the exercise of options;

(c) On June 28, 2018, the Company issued 4,687,500 common shares valued at $0.32 per share in settlement of $1,500,000 of the purchase consideration paid to acquire BYV *(see note 5 to the Q1 2019 interim condensed consolidated financial statements)*;

(d) During the first quarter of fiscal 2019, a total of 175,000 options, initially granted on November 24, 2014, expired unexercised on the departure of two executives of the Company;

(e) On September 21, 2018, 500,000 of the stock options originally granted on September 24, 2013 were exercised at the purchase price of $0.25 per share and 2,000,000 of the stock options originally granted on September 24, 2013 were exercised at the purchase price of $0.20 per share for total proceeds of $525,000.

STRATEGIC OUTLOOK AND DIRECTION

Diamond is committed to building enduring, high quality beverage alcohol brands that celebrate life and achievement in a socially responsible manner. The Company believes in the development of leading brands that recognize the consumer's interest in wine, beer, ready-to-drink beverages and spirits, addressing their desire to explore the many exciting offerings that the Company has available. Vertically integrated, Diamond combines a modern and efficient production facility for Niagara wines with a national marketing agency for its broad portfolio of leading international wines and spirits. The Company is well positioned to add to its throughput of wine production and leverage its national sales force to drive growth from existing brands and support new brands secured by the agency without material change to its cost structure.

The Canadian beverage alcohol market continues to grow strongly, outpacing most consumer categories. Statistics Canada recently reported[1] that in the year ended March 31, 2017 ("2017"), $22.5 billion worth of alcoholic beverages was sold in Canada, up 2.3% from the previous year ended March 31, 2016 ("2016"). The total volume of alcohol sold increased 0.1% to 3,074 million litres in 2017. Canadian wine sales increased 1.8% in 2017 (2016 – 2.2%) to 505 million litres, up from 496 million litres in 2016. This volume is equivalent to 24.5 bottles of wine sold per person over the legal drinking age in Canada (1 bottle = 750 ml, 12% alcohol content). The growth in volume of Canadian wine (+3.7%) outpaced that of imported wine (+0.5%). The value of wine sold increased 3.1% to $7.2 billion in 2017 from $7.0 billion in 2016. Spirits sales increased 3.2% to $5.3 billion in 2017 from $5.1 billion in 2016. By volume, the increase was 2.4% to 168.0 million litres, or 7.3 bottles of spirits sold per person over the legal drinking age in Canada (1 bottle = 750 ml, 40% alcohol content) in 2017 from 164.6 million litres in 2016. Similarly, beer sales increased by 0.7% to $9.1 billion in 2017. Volume sales were 2.3 billion litres, or 221.5 bottles of beer sold per person over the legal drinking age in Canada (1 bottle = 341 ml, 5% alcohol content). The market share for wine (in dollar volume) was 32.0% in 2017, up from 31.6% in 2016. Beer represented 40.6% in 2017 (2016 – 41.5%) and spirits sales represented 23.4% in 2017 (2016 – 23.1%). The remaining market share is made up of Ciders, Coolers and Other Refreshment Beverages (CCORB), which sold 167 million litres in 2017, up from 155 million litres in 2016.

Ontario wineries have a 44% share[2] of the total market of all wine sold in Ontario, but that figure falls to 11% when including only Vintner Quality Alliance ("VQA") wine. In most other international wine regions, the domestic share is consistently above 70%[2]. There are significant opportunities to grow the sales and market share of Ontario wine given increasing wine consumption, continuous quality improvements and competitive pricing[2]. Diamond will continue to focus on further developing its existing brands of VQA certified wines that include Lakeview Cellars, EastDell, Seasons, 20 Bees, Dan Aykroyd and Fresh. This continued focus will include additional investment in marketing, promotion and advertising to ensure top of mind awareness and preference for the Company's brands.

Recent provincial government announcements in New Brunswick, Saskatchewan, British Columbia and Ontario involving the sale of alcohol in grocery stores represents a significant change in the government policies of the past. Although each province is choosing different policy directions, the opening up of market channels is a positive development for Diamond, particularly in the Province of Ontario, which represents a significant proportion of sales. Demand for imported wine in China continues to grow strongly. China imported 746 million litres (or US$2.8 billion) of wine in 2017[3], an increase of 17% in volume and 18% in value over 2016[3]. Canadian wine producers are in the very early stages of capitalizing on this opportunity. Canadian wine exports to China totaled 1.3 million litres in 2016, up 6% from the prior year, according to Statistics Canada. International Wine and Spirit Research (ISWR) reported that China is on pace to become the world's second largest wine consuming country by 2020, surpassing the United Kingdom and France and trailing only the United States.

Within its portfolio of international brands, the Company's emphasis in its agency division will be on building awareness, sales and profit for its existing customer base, while continuing to identify new brand entrants that the Company can represent in the Canadian market. These new brand entrants will include international wines and spirits from a variety of global regions with a specific focus on brands that currently do not have distribution within the Canadian marketplace or are dissatisfied with their current distribution arrangements.

1 https://www150.statcan.gc.ca/n1/daily-quotidien/180510/dq180510a-eng.htm

2 /https://wgao.ca/ontario-wine-industry/

3 https://www.thedrinksbusiness.com/2018/01/chinas-top-10-wine-importing-countries-in-2017/

RISK FACTORS

BUSINESS RISKS

The following risk factors should be carefully considered in evaluating the Company and the industry it operates in. The risks presented below may not be all of the risks that Diamond may face. It is believed that these are the factors that could cause actual results to be different from expected and historical results. New risks may emerge and management may not be able to predict all of them, or be able to predict how they may cause actual results to be different from those contained in any forward-looking statements.

ADDITIONAL FINANCING

Diamond will require additional financing in order to make further investments or take advantage of future opportunities. The ability of Diamond to arrange such financing in the future will depend in part upon prevailing capital market conditions, as well as upon the business success of Diamond. There can be no assurance that Diamond will be successful in its efforts to arrange additional financing on terms satisfactory to Diamond. If additional financing is raised by the issuance of shares or other forms of convertible securities from treasury, control of Diamond may change and shareholders may suffer additional dilution. If adequate funds are not available, or are not available on acceptable terms, Diamond may not be able to take advantage of opportunities, or otherwise respond to competitive pressures and remain in business.

PROFITABILITY

There is no assurance that Diamond will earn profits in the future, or that profitability will be sustained. There is no assurance that future revenues will be sufficient to generate the funds required to continue Diamond's business development and marketing activities. If Diamond does not have sufficient capital to fund its operations, it may be required to reduce its sales and marketing efforts or forego certain business opportunities.

DEPENDENCE ON MANAGEMENT AND KEY PERSONNEL

Diamond will depend on the business and technical expertise of its management team and there is little possibility that this dependence will decrease in the near term. Diamond's success will depend in large measure on certain key personnel. The loss of the services of such key personnel may have a material adverse effect on Diamond's business, financial condition, results of operations and prospects. The contributions of the existing management team to the immediate and near term operations of Diamond are likely to be of central importance. In addition, the competition for qualified personnel in the industry is competitive and there can be no assurance that Diamond will be able to continue to attract and retain all personnel necessary for the development and operation of its business. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of Diamond.

GOVERNMENT REGULATION OF LIQUOR INDUSTRY

Diamond will operate in the highly regulated retail liquor industry in the Province of Ontario and throughout Canada. The Alcohol and Gaming Commission of Ontario (the "AGCO"), the Liquor Control Board of Ontario (the "LCBO") and similar Liquor Boards throughout Canada, may issue decisions, enact rules, new legislation or regulations or may make changes to existing legislation or regulations, all of which can impact the operation of Diamond both favourably and unfavourably. There is no assurance that new legislation or regulations or changes to existing legislation or regulations or decisions of any regulatory bodies in the retail liquor industry in Canada will not adversely affect the operations, profitability, or distributable cash of Diamond.

SIGNIFICANT COMPETITION

The alcoholic beverage industry in Canada is intensely competitive, consisting of many large and small Canadian corporations and international corporations with some possessing extensive experience and financial resources.

MANAGEMENT OF GROWTH

Diamond may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of Diamond to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of Diamond to deal with this growth may have a material adverse effect on Diamond's business, financial condition, results of operations and prospects.

ISSUANCE OF DEBT

From time to time, Diamond may enter into transactions to acquire assets or the shares of other organizations or seek to obtain additional working capital. These transactions may be financed in whole or in part with debt, which may increase Diamond's debt levels above industry standards for companies of similar size. Depending on future plans, Diamond may require additional equity and/or debt financing that may not be available or, if available, may not be available on favourable terms to Diamond. The level of Diamond's indebtedness, from time to time, could impair its ability to obtain additional financing on a timely basis to take advantage of business opportunities that may arise.

LABOUR COSTS AND SHORTAGES AND LABOUR RELATIONS

The success of Diamond's business depends on a large number of both hourly and salaried employees. Changes in the general conditions of the employment market could affect the ability of Diamond to hire or retain staff at current wage levels. The occurrence of either of these events could have an adverse effect on Diamond's results of operations. Diamond does not currently have unionized staff but no assurance can be made that some or all of the employees of Diamond will not unionize in the future. If successful, such an occurrence could increase labour costs and thereby have an adverse effect on Diamond's results of operations.

AGRICULTURAL RISK

The production and sale of wine is dependent upon a consistent supply of high-quality grapes available at reasonable prices. Should some or all of the wineries that Diamond works with be unable to produce the quality of grapes necessary to produce wine, such a shortfall in product could adversely affect the operations, profitability, and/or distributable cash of Diamond.

Diamond expects to continue to increase its share of the premium wine business in Canada, principally through the sale of VQA wines, and as a result is more dependent on the quality and supply of domestically grown premium quality grapes. If any of Diamond's vineyards experience certain weather variations, natural disasters, pestilence, other severe environmental problems or other occurrences, Diamond may not be able to secure a sufficient supply of grapes and there could be a decrease in the production of certain products from those regions and/or an increase in costs. In the past, where there was a significant reduction in domestically sourced grapes, the Government of Ontario, in conjunction with the Wine Council of Ontario and the Ontario Grape Growers Marketing Board, agreed to temporarily increase the blending of imported wines, which enables Diamond to continue to supply wines to the market. There is no certainty that such intervention will be available to the same extent in the future, if at all. The inability to secure premium quality grapes could impair the ability of Diamond to supply wines to its customers.

FOREIGN EXCHANGE

Foreign exchange risk exists on the purchases of all agency brand inventories purchased in foreign currencies for British Columbia and Alberta, which are predominately in Euros and Australian dollars. Diamond currently does not enter into foreign exchange contracts.

ENERGY COSTS

Diamond could experience an increase in energy costs which could result in higher transportation, freight and other operating costs. Diamond's future operating expenses and margins will be dependent on its ability to manage the impact of cost increases. Diamond cannot guarantee that it will be able to pass along increased energy costs to its customers through increased prices.

TAXATION

Canada imposes excise and other taxes on beverage alcohol products in varying amounts which have been subject to change. Significant increases in excise and other taxes on beverage alcohol products could materially and adversely affect Diamond's financial condition or results of operations. In addition, federal and provincial governmental agencies extensively regulate the beverage alcohol products industry concerning such matters as licensing, trade practices, permitted and required labelling, advertising and relations with consumers and retailers. Certain federal and provincial regulations also require warning labels and signage. New or revised regulations or increased licensing fees, requirements or taxes could also have a material adverse effect on Diamond's financial condition or results of operations.

TRADEMARKS

Diamond considers its trademarks, particularly certain brand names and product packaging, advertising and promotion design and artwork to be of significant importance to its business and ascribes a significant value to these intangible assets. Diamond will rely on trademark laws and other arrangements to protect its proprietary rights. There can be no assurance that the steps taken by Diamond to protect its intellectual property rights will preclude competitors from developing confusingly similar brand names or promotional materials. Diamond believes that its proprietary rights do not infringe upon the proprietary rights of third parties, but there can be no assurance in this regard.

IMPORTANCE OF INVENTORY, WAREHOUSE AND DISTRIBUTION SYSTEMS

Diamond's inventory, warehouse and distribution systems are critical components of its operations. Diamond's ability to maintain and upgrade the capabilities of these systems is important to its future performance. If Diamond is unable to maintain the inventory, warehouse and distribution systems or fails to adequately upgrade these systems, Diamond's operations could be adversely affected with the further material adverse effect being on financial results of operations.

WHOLESALE COST INCREASES

Wholesale costs are dependent on a number of factors, including inflation and fuel prices. Any attempt to pass on an increase in wholesale costs to consumers through product price increases could have a material adverse effect on Diamond's sales while a failure to effectively pass any such increases on to consumers could have a material adverse effect on Diamond's result of operations.

DISTRIBUTION BUSINESS

Diamond's business model includes a number of wine and alcohol brands that are represented on an agency basis. There is a risk that such agency brands are sold to an entity that has a pre-existing distribution agency relationship with a provider other than Diamond, and Diamond's revenues and profitability could suffer as result. Furthermore, Diamond's distribution business depends on the ability to retain its current brands as well as attracting additional brands in the future, and a failure to do so could negatively impact revenues and profitability of Diamond.

CREDIT RISK

Credit risk arises from credit exposure to customers through outstanding accounts receivable. The maximum exposure to credit risk is equal to the carrying value of the Company's financial assets. The objective of managing counter-party credit risk is to prevent losses in financial assets. The Company assesses the credit quality of its counter-parties, taking into account their financial position, past experience and other factors. As the large majority of the Company's accounts receivable balances are collectable from government-controlled liquor boards, management believes the Company's credit risk relating to accounts receivable is at an acceptably low level.

EXPOSURE TO INTEREST RATE FLUCTUATIONS

The Company has a high level of floating rate debt. Interest rate risk exists as an increase in interest rates would increase the Company's overall financing costs and have a material impact on Diamond's financial position over the long term.

ENVIRONMENTAL COMPLIANCE

Environmental liabilities may potentially arise when companies are in the business of manufacturing products and, thus, required to handle potentially hazardous materials. As an owner and lessor of property, the Company is subject to various federal and provincial laws relating to environmental matters. Such laws provide that the Company could be held liable for the cost of removal and remediation of hazardous substances on its properties. Management is of the opinion that the risk of environmental liabilities is considered minimal.

PACKAGING

The Company purchases glass, bag in box and other components used in the bottling and packaging of wine. The largest component in the packaging of wine is glass, of which there are few domestic or international suppliers. Diamond sources glass from various distributors and manufacturers both domestically and internationally to insure an adequate supply. As there is currently only one commercial supplier of glass in Canada, any interruption in supply could have an adverse impact on the Company's ability to supply its markets.

INDUSTRY CONSOLIDATION

In recent years, the global beverage alcohol industry has experienced a significant amount of consolidation. Industry consolidation can have varying degrees of impact and, in some cases, may even create exceptional opportunities. Either way, management believes that the Company is well positioned to deal with this or other changes to the competitive landscape in Canada.

RISKS RELATED TO COMMON SHARE INVESTMENTS

PRICE VOLATILITY OF PUBLICLY TRADED SECURITIES

In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility, and the market prices of securities of many companies have experienced wide fluctuations in price. There can be no assurance that continuing fluctuations in price will not occur. It may be anticipated that any quoted market for Diamond's shares will be subject to market trends generally, notwithstanding any potential success of Diamond in creating revenues, cash flows or earnings. The value of Diamond's shares will be affected by such volatility. A public trading market in the Common Shares having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of common shares at any given time, which presence is dependent on the individual decisions of investors over which Diamond has no control. There can be no assurance that an active trading market in securities of Diamond will be established and sustained. The market price for Diamond's securities could be subject to wide fluctuations, which could have an adverse effect on the market price of Diamond. The stock market has, from time to time, experienced extreme price and volume fluctuations, which have often been unrelated to the operating performance, net asset values or prospects of particular companies. If an active public market for Diamond's shares does not develop, the liquidity of a shareholder's investment may be limited and the share price may decline.

DILUTION

Diamond may make future acquisitions or enter into financings or other transactions involving the issuance of securities of Diamond which may be dilutive to the existing shareholders.

DIVIDENDS

Diamond has not paid any dividends on its outstanding common shares. Any payments of dividends on the common shares of Diamond will be dependent upon the financial requirements to finance future growth, the financial condition of Diamond and other factors which Diamond's board of directors may consider appropriate in the circumstance. It is unlikely that Diamond will pay dividends in the immediate or foreseeable future.

FINANCIAL MARKET TURMOIL

Global financial market and economic conditions can pose a significant threat to economic growth in almost all sectors and economies, causing a decline in consumer and business confidence, a reduction in credit availability and a dampening in business and household spending.

NON-IFRS FINANCIAL MEASURES

Management uses net income and comprehensive income as presented in the unaudited interim condensed consolidated statements of net income and comprehensive income as well as "EBITDA" and "Adjusted EBITDA" as a measure to assess performance of the Company. EBITDA and "Adjusted EBITDA" are other financial measures and are reconciled to net income and comprehensive income below under "Results of Operations".

EBITDA and Adjusted EBITDA are supplemental financial measure to further assist readers in assessing the Company's ability to generate income from operations before taking into account the Company's financing decisions, depreciation of property, plant and equipment and amortization of intangible assets. EBITDA comprises gross margin less operating costs before financial expenses, depreciation and amortization, non-cash expenses such as share-based compensation, one-time and other unusual items, and income tax. Adjusted EBITDA comprises EBITDA before non-recurring expenses such as severance, restructuring costs, one-time financing charges, acquisition costs, cost of sales adjustments related to inventory acquired in business combinations and other non-recurring adjustments. Gross margin is defined as gross profit excluding depreciation on property, plant and equipment used in production. Operating expenses exclude interest, depreciation on property, plant and equipment used in selling and administration, and amortization of intangible assets.

EBITDA does not represent the actual cash provided by the operating activities nor is it a recognized measure of financial performance under IFRS. Readers are cautioned that this measure should not be considered as a replacement for those as per the unaudited interim condensed consolidated financial statements prepared under IFRS. The Company's definitions of this non-IFRS financial measure may differ from those used by other companies.

The Company calculates EBITDA and Adjusted EBITDA as follows:

	Q2 2019 $	YTD 2019 $	Q2 2018 $	YTD 2018 $
Net (loss) income	(429,548)	(329,190)	1,268	885,670
add: Interest on bank indebtedness	266,060	590,762	248,692	465,754
Depreciation on property, plant and equipment used in production	237,784	401,748	218,721	384,832
Depreciation on property, plant and equipment used in selling and administration	106,115	186,114	81,845	160,926
Amortization on intangible assets	87,058	172,364	87,071	172,942
Share-based compensation	105,282	141,166	143,728	160,505
Income tax recovery	(55,605)	(55,605)	-	-
EBITDA	317,146	1,107,359	781,325	2,230,629
add: Acquisition costs	21,667	70,617	-	-
Cost of goods sold adjustments for fair value of BYV inventories sold	178,672	178,672	-	-
Warehousing cost recoveries	-	(49,506)	-	-
QST recovery	-	(49,299)	-	-
One-time financing costs	-	-	96,387	96,387
Adjusted EBITDA	517,485	1,257,843	877,712	2,327,016

USES OF ESTIMATES AND JUDGEMENTS

The preparation of these unaudited interim condensed consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made. These include, but are not limited to, the following:

FAIR VALUE OF GRAPES AT THE POINT OF HARVEST

Where possible, the fair value of grapes at the point of harvest is determined by reference to local market prices for grapes of a similar quality and the same varietal. For grapes for which local market prices are not readily available, the average price of similar grapes is used. The fair value of grapes is included in the cost of bulk wine inventory.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment represent a significant proportion of the asset base of the Company as they amount to 42.6% of total assets as at September 30, 2018 (March 31, 2018 - 44.2%). Therefore, estimates and assumptions made to determine their carrying value and related depreciation are critical to the Company's financial position and performance.

IFRS requires management to test for impairment of property, plant and equipment if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment testing is an area involving management judgement, requiring assessment as to whether the carrying value of assets can be supported by the net present value of future cash flows derived from such assets using cash flow projections which have been discounted at an appropriate rate.

The charge in respect of periodic depreciation is derived after determining an estimate of an asset's expected useful life and the expected residual value at the end of its life. The useful lives and residual values of the Company's assets are determined by management at the time the asset is acquired and reviewed annually for appropriateness. The lives are based on historical experience with similar assets as well as anticipation of future events, which may impact their life.

GROSS VERSUS NET PRESENTATION

When deciding the most appropriate basis for presenting revenue or costs of revenue, both the legal form and substance of the agreement between the Company and its business partners are reviewed to determine each party's respective role in the transaction. Where the Company's role in a transaction is that of principal, revenue is recognized on a gross basis. This requires revenue to comprise the gross value of the transaction billed to the customer, after trade discounts, with any related expenditure charged as an operating cost. Where the Company's role in a transaction is that of an agent, revenue is recognized on a net basis with revenue representing the margin earned.

USEFUL LIFE OF INTANGIBLE ASSETS

Significant judgement is involved in the determination of useful life for the computation of depreciation of intangible assets. No assurance can be given that actual useful lives will not differ significantly from current assumptions.

IMPAIRMENT OF INTANGIBLE ASSETS

Testing intangible assets for impairment involves estimating the recoverable amount of the CGUs to which intangible assets are allocated. This requires making assumptions about future cash flows, growth rates, market conditions and discount rates, which are inherently uncertain. Actual amounts may vary from these assumptions and cause significant adjustments. Management has concluded that a 10% change in any key assumption in the impairment test of intangible assets would not result in an impairment of intangible assets as at March 31, 2017 and March 31, 2016.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

IFRS 9: "Financial Instruments: Classification and Measurement of Financial Assets and Financial Liabilities" was issued by the IASB in July, 2014 and replaced IAS 39 "Financial Instruments: Recognition and Measurement". In addition, IFRS 7 "Financial Instruments: Disclosures" was amended to include additional disclosure requirements on transition to IFRS 9. The mandatory effective date of applying these standards is for annual periods beginning on or after January 1, 2018. The standard uses a single approach to determine whether a financial asset is measured at amortized cost or fair value. The approach is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used. The standard requires that for financial liabilities measured at fair value, any changes in an entity's own credit risk are generally to be presented in other comprehensive income instead of net earnings. A new hedge accounting model is included in the standard, as well as increased disclosure requirements about risk management activities for entities that apply hedge accounting. The new standard was adopted effective April 1, 2018 and the adoption did not have a significant impact on the consolidated financial statements

IFRS 15: "Revenue from Contracts with Customers" was issued by the IASB in May, 2014 and supercedes IAS 18 "Revenue" and IAS 11 "Construction Contracts". The standard details a revised model for the recognition of revenue from contracts with customers. The standard is effective for first interim periods within annual periods beginning on or after January 1, 2018. The Company has adopted the accounting standard effective April 1, 2018, using a full retrospective approach and the adoption did not have a significant impact on the consolidated financial statements.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

As at the date of authorization of these unaudited interim condensed consolidated financial statements, the IASB has issued the following new or revised standards which are not yet effective:

(a) **IFRS 16 "Leases"** was issued by the IASB in January 2016 and will ultimately replace IAS 17, "Leases" and related interpretations. The new standard will be effective for fiscal years beginning on or after January 1, 2019, with early adoption permitted provided the Company has adopted IFRS 15, Revenue from Contracts with Customers. The new standard requires lessees to recognize a lease liability reflecting future lease payments and a "right-of-use asset" for virtually all leases contracts, and record it on the statement of financial position, except with respect to lease contracts that meet limited exception criteria. Given that the Company has significant contractual obligations in the form of operating leases under IAS 17, there will be a material increase to both assets and liabilities on adoption of IFRS 16, and material changes to the timing of recognition of expenses associated with the lease arrangements. The Company is analyzing the new standard to determine the impact of adopting this standard. The Company intends to adopt this standard effective April 1, 2019.